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RUEHBY/AMEMBASSY CANBERRA 0634  
RUEHDK/AMEMBASSY DAKAR 0999  
RUEHKM/AMEMBASSY KAMPALA 1427  
RUEHNR/AMEMBASSY NAIROBI 3810  
RUEHFR/AMEMBASSY PARIS 1196  
RUEHRO/AMEMBASSY ROME 1849  
RUEHBS/USEU BRUSSELS  
RUEHGV/USMISSION GENEVA 0594  
RHEHAAA/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1590  
RUEKJCS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEFDIA/DIA WASHDC//DHO-7//  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 001361

SIPDIS

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AF/S FOR S. HILL  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN  
TREASURY FOR J. RALYEA AND T.RAND  
COMMERCE FOR BECKY ERKUL

E.O. 12958: DECL: 01/12/2016  
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ASEC](#) [ZI](#)  
SUBJECT: CENTRAL BANKER GONO,S "MOST DIFFICULT YEAR" - IT'S  
BEEN NO PRIZE FOR THE REST OF THE COUNTRY EITHER

REF: HARARE 1317

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

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Summary  
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¶1. (C) In a November 13 meeting with the Ambassador, Reserve Bank of Zimbabwe (RBZ) Governor Gideon Gono described 2006 as his most difficult year in office. He professed embarrassment at Zimbabwe's outcast status within SADC and depicted himself as personally under siege for the country's myriad economic problems. He attacked corruption in ZANU-PF, promised to tone down the blame on "sanctions" for Zimbabwe's economic woes, and voiced support for U.S. businesses in Zimbabwe and their engagement on the economic front. The Ambassador noted in response that now was the time to begin a discussion about Zimbabwe's economic future.

¶2. (C) Gono said he was working with the Finance Minister to transfer RBZ funding of parastatals to the budget. Against an outcry from the banking sector, he had cancelled plans to require the banks to take on long-term, negative yielding, government bonds. He also indicated the GOZ would back down from its plans for quick black empowerment of the mining sector, conceding that it had scared away investors. He expressed concern about the country's food security, and conceded that the recently issued 99-year leases to farmers were, in fact, nontransferable. End Summary

13. (C) Gono described 2006 as his most difficult year as Governor. He professed embarrassment at Zimbabwe's outcast status within SADC and at regional performance indicators that repeatedly cited "SADC, minus Zimbabwe." At the same time, he took a shot at the IMF for ignoring the "self-fulfilling effect" of its recent projection that inflation in Zimbabwe would accelerate to above 4000 percent in 2007 if current policies were maintained. Depicting himself, as under attack from all directions as the cause of Zimbabwe's woes from water shortages to fertilizer scarcity, he said, where people had once "blamed Blair; blamed Bush" for shortages, they now "blamed the Governor."

14. (C) Gono said management of exchange rate policy was the most politically difficult of all his issues. (N.B. The US dollar is trading on the parallel market at a record premium of over 700 percent to the official rate.) Departing from earlier, more ambitious goals, he said he would work toward convergence of the exchange rates in 2007 and achieve it by the end of his term in office in 2008.

15. (C) Gono claimed that attacking corruption was high on his agenda, but the problem lay mainly with "party stalwarts" (unnamed), who were "growing stronger." Citing a recent scramble for ownership of a diamond claim in Manicaland, he said the "big fish" were trying to carve it up for themselves. He added that since his July Monetary Policy

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Statement, he had begun to "moan" less about sanctions and would seek to "educate the nation" that capital flowed to "areas of greatest freedom."

16. (C) The Ambassador responded that change was in the wind and the time was right to have a public discussion on the way forward for Zimbabwe. He gave the Governor papers from the October 5 American Business Association of Zimbabwe (ABAZ) "Just Business" forum (reftel), and made the point that the state of the economy was closely linked to the political situation; the two problems could not be solved separately. Gono agreed and said he wanted to interact with U.S. businesses in Zimbabwe and assure them of his support. He also expressed interest in communicating with Dr. Cio Megale, the Brazilian economist who described Brazil's experience in taming hyperinflation at the ABAZ forum, and in traveling to Brazil early in the New Year to learn more.

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Fiscal Policy: No More RBZ Support for Parastatals  
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17. (C) Regarding the budget, Gono disclosed that he was working with Finance Minister Murerwa on a plan to transfer the RBZ's quasi-fiscal activities to the budget. (N.B. Gono announced in October that the RBZ would cease financing highly indebted and underperforming parastatals.) He questioned, however, whether Murerwa would "have the guts" to move the plan forward. At the same time, he conceded to the Ambassador that, out of "national pride and safety concerns," the RBZ had provided Air Zimbabwe with USD2.8 million over the weekend to allow the airline to pay off a crucial debt and resume its daily London flight without fear of the plane being seized.

18. (C) The Ambassador asked whether the GOZ was truly willing to stand back and allow the parastatals to sink or swim, questioning, for instance, whether eliminating the huge electric power subsidy to the Zimbabwe Electric Supply Authority (ZESA), for example, was politically "doable." Gono replied that it would take courage.

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¶9. (SBU) Regarding recent monetary policy shifts (septel), Gono explained that the RBZ could have increased statutory reserves to mop up impending excess liquidity in the market. It had opted instead, in early October to introduce mandatory negative-interest yielding 5-year Financial Sector Stabilization Bonds, and, again, on October 23, to require the banks to lock up an additional share of their balance sheets by November 17 in 7-year, also negative yielding, "Economic Stabilization Bonds." However, in the face of a clamorous outcry from the banking sector, he had backed down and cancelled the latter bonds on November 10. Gono claimed that his motivation in proposing these measures had been in part to pressure the banks to resume lending to average Zimbabweans, and to stop charging them a commission for deposits but instead to pay them interest.

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¶10. (C) Addressing the amendment to the Mines and Minerals Act that has been under discussion for some time, he said the GOZ had decided to be pragmatic and achieve black empowerment over several years rather than in one stroke. The GOZ had come to recognize that forcing indigenization would kill off foreign direct investment in the sector. He added that the GOZ would look in all directions for investment, not just to the East. (N.B. See septel for Gono,s reported &wild promises8 to the Russians and other foreigners with respect to the mining sector.)

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The Maize Deficit, 99-Year Leases, The Way Forward in Ag  
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¶11. (C) Addressing the state of the agriculture sector, Gono said Agriculture Minister Made had told him at a cabinet meeting that this summer,s maize deficit would be 200,000-300,000 metric tons (MT),whereas Made,s own Permanent Secretary Pazvakavamba had told him at the same meeting that the deficit would be more likely on the order of one million MT. If Zimbabwe truly needed US\$200 million this hungry season to purchase maize, it was "a tragedy".

¶12. (C) On Mugabe's issuance of the first 99-year leases to farmers on November 9, Gono conceded to the Ambassador that the leases were, in fact, not transferable. Ambassador Dell referred Gono to a paper prepared by John Mellor for the ABAZ forum that urged getting the balance right between commercial farms and small holdings in order to alleviate poverty while also generating foreign exchange.

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Comment  
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¶13. (C) Mr. Fix-it is running out of fixes. He implied, correctly, that the economy had never been in a worse state, but as usual declined to take any responsibility. In fact no one is more to blame for Zimbabwe's economic downturn than Gono, except possibly his political master, President Mugabe. He has locked the local currency into an absurdly overvalued exchange rate while fueling inflation through the reckless printing of money. His erratic policy shifts have put virtually every sector of the economy into a spin. Undoubtedly, 2006 has been Gono,s most challenging year in office, it has been even more challenging for the average Zimbabwean whom Gono claims to champion but in fact has defrauded through his professional incompetence and personal corruption. In that regard, we welcome the rumors that Mugabe is considering Gono as his successor. We could think of no faster way to bring to a close ZANU-PF's misrule.

DELL